Refinancing Volume Pulls Back as Rates Rise

By: Jann Swanson | Wed, Jan 20 2021, 8:37 AM

The volume of **mortgage applications fell back slightly last week.** The Mortgage Bankers Association (MBA) said its Market Composite Index was down 1.9 percent on a seasonally adjusted basis during the week ended January 15 compared to the prior reporting period. On an unadjusted basis the index lost 1.0 percent.

The seasonally adjusted Purchase Index rose 3.0 percent from one week earlier and was 9.0 percent higher on an unadjusted basis. Purchase applications were up 15 percent year-over-year. Those gains were offset by a 5.0 percent decline in the Refinance Index although it remained 87 percent higher than during the same week in 2020. Applications for **refinancing composed 72.3 percent of the total, down from 74.8 percent the previous week.**

"Mortgage rates increased across the board last week, with the 30-year fixed rate rising to 2.92 percent - its highest level since November 2020 - and the 15-year fixed rate increasing for the first time in seven weeks to 2.48 percent. Market expectations of a larger than anticipated fiscal relief package, which is expected to further boost economic growth and lower unemployment, have driven Treasury yields higher the last two weeks," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "After a post-holiday surge of refinances, higher rates chipped away at demand. There was a 5 percent drop in refinance activity, **driven by a 13.5 percent pullback in government refinances**."

Added Kan, "**Purchase applications remained strong** based on current housing demand, rising over the week and up a noteworthy 15 percent from last year. Homebuyers in early 2021 continue to seek newer, larger homes. The average loan size for purchase loans jumped to $384,000, the second highest level in the survey."

The FHA share of total applications decreased to 9.3 percent from 9.6 percent the prior week prior and the VA share do[[ed to 13.8 percent from 15.8 percent. The USDA share was unchanged at 0.4 percent. The average loan balance was $327,400, up from $323,000 a week earlier. The average balance of purchase mortgages cited by Kan represented about a $9,000 gain.

The average contract interest rate for 30-year fixed-rate mortgages (FRM) with origination balances at or below the conforming limit of $548,250 increased to 2.92 percent from 2.88 percent, with points ticking up to 0.37 from 0.33. The effective rate increased to 3.03 percent.

The rate for jumbo 30-year FRM, loans with balances greater than the conforming limit, added 2 basis points, reaching 3.19 percent. Points were unchanged at 0.28 and the effective rate rose to 3.27 percent.

Thirty-year FRM backed by the FHA had an average rate of 3.01 percent with 0.29 point. The previous week the rate was 2.93 percent with 0.32 point. Effective rates averaged 3.09 percent.

The 15-year FRMs average rate increased to 2.48 percent from 2.39 percent and points grew to 0.33 from 0.31. The effective rate was 2.56 percent.

The rate for 5/1 adjustable-rate mortgages (ARMs) jumped 11 basis points to 2.76 percent while points declined to 0.31 from 0.38. The effective rate was also higher at 2.88 percent. The ARM share of activity was to 2.1 percent, up from 1.6 percent the previous week.

MBA's Weekly Mortgage Applications Survey has been conducted since 1990 and covers over 75 percent of all U.S. retail residential applications Respondents include mortgage bankers, commercial banks, and thrifts. Base period and value for all indexes is March 16, 1990=100 and interest rate information is based on loans with an 80 percent loan-to-value ratio and points that include the origination fee.

MBA latest Forbearance and Call Volume Survey put the share of mortgage loans in forbearance at 5.37 percent as of January 10, **down from 5.46 percent a week earlier.** This translates to approximately 2.7 million loans. By stage, 17.27 percent of total loans are in their initial forbearance term while 80.45 percent are in a forbearance extension. The remaining 2.28 percent are reentries into the program.

The share of Fannie Mae and Freddie Mac loans in forbearance decreased 6 basis points to 3.13 percent and Ginnie Mae (FHA and VA) loans declined 18 basis points to 7.67 percent. The forbearance share for portfolio loans and private-label securities (PLS) decreased by 9 basis points to 8.68 percent. The share serviced by independent mortgage bank (IMB) servicers decreased 13 basis points from the previous week to 5.79 percent, and the percentage of loans in forbearance for depository servicers decreased 6 basis point to 5.33 percent.

"The week of January 10th saw the largest - and only the second - **decrease in the share of loans in forbearance in nine weeks**, with declines across almost every tracked loan category," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "The rate of exits from forbearance has picked up a bit over the past two weeks but remains much lower than what was seen in October and early November."

Fratantoni added, "Job market data continue to indicate weakness, and that means many homeowners who remain unemployed will need ongoing relief in the form of forbearance. While new forbearance requests remain relatively low, the availability of relief remains a necessary support for many homeowners."

There was an uptick in the percentage of call center volume related to forbearances, from 7.2 percent to 9.2 percent.

MBA's latest Forbearance and Call Volume Survey covers the period from January 4 through January 10, 2021 and represents 74 percent of the first-mortgage servicing market (37.0 million loans).

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